

MUSKEGON HEIGHTS HOUSING COMMISSION
MUSKEGON HEIGHTS, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Muskegon Heights Housing Commission	County Muskegon
Fiscal Year End March 31, 2007	Opinion Date December 21, 2007	Date Audit Report Submitted to State December 22, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Report on Compliance and Internal Controls	
Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC		Telephone Number (231) 946-8930	
Street Address 731 S. Garfield Avenue		City Traverse City	State MI
Zip 49686			
Authorizing CPA Signature 	Printed Name Barry E. Gaudette, CPA	License Number 11050	

MUSKEGON HEIGHTS HOUSING COMMISSION
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INTRODUCTION

Independent Auditor's Report

Board of Commissioners
Muskegon Heights Housing Commission
Muskegon Heights, Michigan

I have audited the accompanying financial statements of the business-type activities of Muskegon Heights Housing Commission, Michigan, an autonomous quasi government entity, as of and for the year ended March 31, 2007, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Muskegon Heights Housing Commission, Michigan, as of March 31, 2007, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Muskegon Heights Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated December 21, 2007, on my consideration of Muskegon Heights Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 12, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise Muskegon Heights Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Muskegon Heights Housing Commission, Michigan. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sandy E. Standish, CPA, PC

December 21, 2007

**Muskegon Heights Housing Commission
Management's Discussion and Analysis (MD&A)
March 31, 2007
(Unaudited)**

As management of the Muskegon Heights Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the Muskegon Heights Housing Commission's financial activities for the fiscal year ended March 31, 2007. This discussion and analysis letter of the Muskegon Heights Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

The combined financial statements reflect all of the Commission's federally funded programs and activities in one place. The Commission reports all its activities and programs using the Enterprise Fund type model. HUD encourages PHAs to use this accounting method as it is normally used to account for "business-type activities" - activities similar to those found in the private sector. Enterprise Fund types use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenditures may be reported as such even though no cash transaction has actually taken place.

FINANCIAL HIGHLIGHTS

The term "net assets" refers to the difference between assets and liabilities. The Commission's total net assets as of March 31, 2007 was \$6,662,042. The net assets decreased by \$214,413, an decrease of 3.12% from the prior year.

Revenues and contributions for the Commission were \$2,685,437 for the fiscal year ended March 31, 2007. This was an increase of \$129,518 or 5.1% over the prior year.

Expenses for the Commission were \$2,899,850 for the fiscal year ended March 31, 2007. This was an increase of \$205,717 or 7.6% over the prior year.

HUD operating grants were \$1,194,666 for the fiscal year ended March 31, 2007. This was an increase of \$389,793 or 48.4% over the prior year. Capital contributions were \$696,393 for the fiscal year ended March 31, 2007. This was a decrease of \$315,717 or 31.2% from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report contains this *Management & Discussion Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental*

**Muskegon Heights Housing Commission
Management's Discussion and Analysis (MD&A)
(Continued)
March 31, 2007**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Information. The Commission's financial statements are presented as fund financial statements because the Commission only has proprietary funds.

Required Financial Statements

The *Statement of Net Assets* includes the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission creditors (liabilities). It also provides the basis for evaluating the liquidity and financial flexibility of the Commission.

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Assets*. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the *Statement of Cash Flows*. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established Uniform Financial Reporting Standards that require Housing Commissions to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) and is required to be included in the audit reporting package.

**Muskegon Heights Housing Commission
Management's Discussion and Analysis (MD&A)
(Continued)
March 31, 2007**

FUND STATEMENTS

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Enterprise fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

Muskegon Heights Housing Commission Programs:

Low Rent Public Housing: Under this program, the Housing Commission rents units that it owns to low-income elderly and family households. This program is operated under an Annual Contributions Contract with HUD. HUD provides Operating Subsidies to enable the Housing Commission to lease these units at a rate that is based on 30% of the household income.

Capital Fund Program: Under this program, the Housing Commission is awarded funds each year to use for Capital needs. The Housing Commission also has the ability to use up to 20% of these funds, if need be, to supplement Operating Subsidies. This program is the primary funding source for physical improvements to its properties.

Section 8 Housing Choice Voucher Program: Under this program, the Housing Commission administers contracts with independent landlords to provide housing for low-income households. These units are not owned by the Housing Commission. The Housing Commission subsidizes the family's rent via a "Housing Assistance Payment" made directly to the landlord. HUD provides subsidy to the Housing Commission to enable the Housing Commission to set the rental rates at 30% of a participant's income.

FINANCIAL ANALYSIS

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the following table, assets exceeded liabilities by \$6,662,042 at the close of the fiscal year ended March 31, 2007 an decrease from \$6,876,455 in 2006. The decrease in net assets of \$214,413 was due to the change in net assets of \$214,413 for the fiscal year.

The unrestricted net assets were \$116,187 as of March 31, 2007. This amount may be used to meet the Commission's ongoing obligations.

**Muskegon Heights Housing Commission
Management's Discussion and Analysis (MD&A)
(Continued)
March 31, 2007**

FINANCIAL ANALYSIS (CONTINUED)

The Commission had net assets of \$71,261 classified as restricted that are subject to external restrictions, by REAC for capital replacement funds, on how they may be used. At the end of the current fiscal year, the Commission is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

**CONDENSED STATEMENTS OF NET ASSETS
MARCH 31,**

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Per Cent Change</u>
Current and other assets	\$ 528,144	\$ 381,901	\$ 146,243	38.29%
Capital assets	<u>7,808,546</u>	<u>6,727,647</u>	<u>1,080,899</u>	16.07%
Total Assets	<u>8,336,690</u>	<u>7,109,548</u>	<u>1,227,142</u>	17.26%
Current liabilities	475,019	233,093	241,926	100.00%
Noncurrent liabilities	<u>1,199,629</u>	<u> </u>	<u>1,199,629</u>	100.00%
Total Liabilities	<u>1,674,648</u>	<u>233,093</u>	<u>1,441,555</u>	100.00%
Net Assets:				
Invested in capital assets	6,474,594	6,727,647	(253,053)	(3.76)%
Restricted	71,261		71,261	100.00%
Unrestricted	<u>116,187</u>	<u>148,808</u>	<u>(32,621)</u>	(21.92)%
Total Net Assets	<u>\$6,662,042</u>	<u>\$6,876,455</u>	<u>\$ (214,413)</u>	(3.12)%

Total current assets increase of \$146,243 was due, in large part, to the Housing Choice Voucher programs and the Capital Fund program cash increase of \$88,116 and \$71,261, over the prior year, respectively.

Current liabilities increased by \$241,926 over the prior year, due in part, to accounts payable increasing by \$23,722, accounts payable for PILOT of \$23,415 not being paid this year, due to a dispute with the City over curbside garbage collection which the PHA is being forced to pay for contrary to the 1960 Cooperative Agreement between the City and HUD, and the current portion of \$158,693 for the Water & Energy loan being set up this year, and a deferred revenue of \$60,228 being setup this year in the capital fund program.

**Muskegon Heights Housing Commission
Management's Discussion and Analysis (MD&A)
(Continued)
March 31, 2007**

FINANCIAL ANALYSIS (CONTINUED)

The largest portion of the Commission's net assets reflects its investment in capital assets (e.g. land, buildings, equipment, and construction in progress) less accumulated depreciation. The Commission uses these capital assets to provide service and consequently these assets are not available to liquidate liabilities or other spending.

While the Statement of Net Assets shows the change in financial position of net assets, the Statements of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes.

As can be seen in the following table total revenues and contributions increased by \$160,069, in part, due to the federal HUD grants increasing by \$74,076 over the prior year. Tenant rents increased by \$24,196 due to increases in tenant incomes. Interest income increased by \$4,027 due to interest rate increases and cash increases. Other income increased by \$50,861 due to \$51,000 received from Comcast for the rental of a tower on the Housing Commission's property.

**CONDENSED STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
MARCH 31,**

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Per Cent Change</u>
Revenues and contributions				
Operating, nonoperating, capital contributions:				
Tenant Revenue	\$ 678,664	\$ 654,468	\$ 24,196	3.7%
Nondwelling rent	<u>80,062</u>	<u>73,153</u>	<u>6,909</u>	9.4%
Total PHA generated				
Revenue	758,726	727,621	31,105	4.3%
HUD operating grants	1,194,666	804,873	389,793	48.4%
Capital contributions	696,393	1,012,110	(315,717)	(31.2)%
Other income	60,065	9,204	50,861	100.0%
Interest income	<u>6,138</u>	<u>2,111</u>	<u>4,027</u>	100.0%
Total Revenues and Contributions	<u>2,715,988</u>	<u>2,555,919</u>	<u>160,069</u>	6.3%

**Muskegon Heights Housing Commission
Management's Discussion and Analysis (MD&A)
(Continued)
March 31, 2007**

FINANCIAL ANALYSIS (CONTINUED)

**CONDENSED STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
MARCH 31,**

	<u>2007</u>	<u>2006</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Expenses				
Personal services	486,138	566,446	(80,308)	(14.2)%
Utilities	444,657	359,848	84,809	23.6%
Operations and maintenance	480,847	507,136	(26,289)	(5.2)%
Insurance	145,735	133,244	12,491	9.4%
Other supplies and expenses	217,125	127,709	89,416	70.0%
Payments in lieu of taxes	23,415	29,542	(6,127)	(20.7)%
Housing Assistance Payments	160,078	137,262	22,816	16.6%
Depreciation	859,788	832,946	26,842	3.2%
Interest expense	<u>109,496</u>	<u> </u>	<u>109,496</u>	100.0%
Total Expenses	<u>2,927,279</u>	<u>2,694,133</u>	<u>233,146</u>	8.7%
Change in net assets	(211,291)	(138,214)	(73,077)	
Prior period adjustment	(3,122)		(3,122)	
Beginning net assets	<u>6,876,455</u>	<u>7,014,669</u>	<u>(138,214)</u>	
Ending net assets	<u>\$6,662,042</u>	<u>\$6,876,455</u>	<u>\$(214,413)</u>	

Revenues:

Muskegon Heights Housing Commission's primary revenue sources are subsidies and grants received by HUD. Please note that Capital Fund Program grants are classified as either soft cost revenue or hard cost revenue. Revenue received from HUD for fiscal year ended March 31, 2007 for Public Housing and for Section 8 increased from the fiscal year ending March 31, 2006 to March 31, 2007 by \$389,793. Capital contributions decreased by \$315,717 from the prior year. For fiscal year ending March 31, 2007, revenue generated by the Commission accounted for \$758,726 (or 27.9% of total revenue), while HUD contributions accounted for \$1,891,059 (or 69.6% of total revenue).

**Muskegon Heights Housing Commission
Management's Discussion and Analysis (MD&A)
(Continued)
March 31, 2007**

FINANCIAL ANALYSIS (CONTINUED)

Expenses:

Total expenses for the fiscal year ending March 31, 2006 were \$2,694,133 while for the fiscal year ending March 31, 2007 was \$2,927,279, or a \$233,146 increase. This represents a 8.7% increase in our operating costs. The expenses increased, in large part, because of interest expense of \$109,496 paid on a new loan, utilities increased by \$84,809 because the prior year recorded less than 12 payments, legal expenses increased by \$55,454 because of pursuing evictions more aggressively. Maintenance contract costs decreased by \$26,435 from the prior year. Health insurance costs decreased this year also, because of a change in benefits and a change in plans.

The following represents changes in Federal Assistance received:

	<u>03/31/07</u>	<u>03/31/06</u>	<u>Dollar Change</u>	<u>Per Cent Change</u>
Public Housing				
Operating Subsidy	\$ 946,870	\$ 590,874	\$ 355,996	60.2%
Capital Fund Program				
Grants	696,393	1,012,110	(315,717)	(31.2)%
Sec. 8 Voucher	247,796	213,999	33,797	15.8%
Total	<u>\$1,891,059</u>	<u>\$1,816,983</u>	<u>\$ 74,076</u>	<u>4.1%</u>

The above chart is segregated as to the Program source of funds, not the use of funds. The subsidy for Section 8 increased due to an increase in the number of vouchers issued. The subsidy for Public Housing increased due to HUD changing how it calculates the subsidy. In addition, the PHA selected the "Add On" payment for its Energy Performance Contract loan. Consequently, the loan payment from HUD is "Added On" to the monthly Operating Subsidy allotment. The PHA also, used funds from the Capital Fund Program for Operations to pay for security personnel at its high rise development. The decrease in the Capital Fund Program was due to the fact that work projects during the fiscal year ending March 31, 2007 progressed along normally, where in the prior year projects progressed more rapidly, thus utilizing less of our Capital Fund Program funding in the fiscal year ending March 31, 2007 than in the fiscal year ending March 31, 2006.

**Muskegon Heights Housing Commission
Management's Discussion and Analysis (MD&A)
(Continued)
March 31, 2007**

FINANCIAL ANALYSIS (CONTINUED)

Budget Analysis:

A Low Rent Public Housing Operating Budget for the fiscal year ending March 31, 2007 was presented to and approved by the Board of Commissioners. We had no reason to amend the budget during the fiscal year. Actual results were in line with budgeted amounts.

OPERATIONAL HIGHLIGHTS

The Muskegon Heights Housing Commission provided the following housing for low-income elderly and low-income families:

	<u>March 31,</u> <u>2007</u>	<u>March 31,</u> <u>2006</u>
Low Rent Public Housing	339	349
Sec. 8 Housing Choice Voucher	50	50

During the fiscal year ending March 31, 2007, Muskegon Heights Housing Commission maintained a lease-up rate of 89.6% in its Public Housing Program and a lease-up rate of 98% in its Section 8 program.

The Muskegon Heights Housing Commission is designated a Standard performer but Troubled financially. Efforts to lift the PHA out of the Troubled status have fallen short in the financial area where a score between 18-30 is required to not be classified as Troubled by HUD.

The Muskegon Heights Housing Commission continues to press forward in our efforts to improve our occupancy rate, unit turn around rate and our Tenants Accounts Receivables. These are areas that can immediately improve our bottom line. An outside contractor has been secured to provide an assessment of our operation and staff training to enable the operation to move to a higher level.

The Muskegon Heights Housing Commission remodeled 50 kitchens in our townhouse units that had a tremendously positive impact on resident and community pride. The PHA is hopeful of obtaining a Capital Fund loan that would allow us to remodel the remaining 290 public housing unit kitchens, townhouses and high-rise. We believe that remodeled kitchens, new windows with security screens and security cameras will greatly improve residents and applicants feelings of well being. These improvements, we believe will help attract a more stable, higher income clientele. A clientele that will be less transient will provide stability that decreases time

**Muskegon Heights Housing Commission
Management's Discussion and Analysis (MD&A)
(Continued)
March 31, 2007**

OPERATIONAL HIGHLIGHTS (CONTINUED)

and money associated with move outs and rehabilitation of the units. Stability will also allow for a more predictable income/expense projections. Units turned around the last 3 fiscal years have been 109 - 32% FYE 3/31/2005; 148 = 44% FYE 3/31/2006; 144 = 42% FYE 3/31/2007 and thru 129 = 38% 12/14/2007 with 3.5 months remaining in the fiscal year. Turning such a high percentage of our units over every year places a high financial burden on our operating budget that does not have to be, if just those aforementioned circumstances could be improved.

Starting 11/1/07 the PHA was assigned to begin working with The Recovery and Prevention Corps (RPC) in Cleveland, Ohio and will no longer work with Detroit HUD. The PHA is excited about the change as we believe that RPC will be able to give good, sound advice and directions that will allow the PHA to conquer the final hurdles holding us in Troubled status.

The Muskegon Heights Housing Commission Section 8 Voucher Program is performing well and received a SEMAP score of 81%. The Muskegon Heights Housing Commission is poised to come out of Troubled status and begins living up to it's potential.

CAPITAL ASSETS

**CAPITAL ASSETS
NET OF ACCUMULATED DEPRECIATION
MARCH 31,**

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>
Land	\$ 1,402,031	\$ 1,402,031	\$
Buildings	17,947,289	7,696,287	10,251,002
Furniture, equipment and machinery - dwellings	69,556		69,556
Furniture, equipment and machinery - administration	198,604	386,424	(187,820)
Building improvements	281,557	9,125,579	(8,844,022)
Construction in progress	<u>1,097,238</u>	<u>445,267</u>	<u>651,971</u>
	20,996,275	19,055,588	1,940,687
Accumulated depreciation	<u>(13,187,729)</u>	<u>(12,327,941)</u>	<u>(859,788)</u>
Total	<u>\$ 7,808,546</u>	<u>\$ 6,727,647</u>	<u>\$ 1,080,899</u>

**Muskegon Heights Housing Commission
Management's Discussion and Analysis (MD&A)
(Continued)
March 31, 2007**

CAPITAL ASSETS (CONTINUED)

Capital assets increased by \$1,080,899, because capital outlays were \$1,940,687 and depreciation was \$859,788. Some of the capital improvements this fiscal year, include the following: Replacing locks, rekeying locks, bathroom renovations, a furnace, kitchen renovations, and an imaging system. Capital outlays for the fiscal year ended March 31, 2008 include continuing kitchen improvements and training for the maintenance department.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Housing Commission is primarily dependent upon HUD for the funding of operations as well as capital needs. Therefore, the Housing Commission is affected more by the Federal Budget than by local economic conditions. The funding of programs could be significantly affected by the Federal Budget.

Although the Housing Commission remains concerned about the future levels of HUD funding due to the state of the federal budget, we feel that we are both financially and operationally in a strong position to continue to provide safe, sanitary, and decent housing to our residents.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions or comments concerning any of the information contained in this report or request for additional information should be directed to:

McKinley V. Copeland, Executive Director
Muskegon Heights Housing Commission
615 E. Hovey Avenue
Muskegon Heights, MI 49444

FINANCIAL STATEMENTS

MUSKEGON HEIGHTS HOUSING COMMISSION

STATEMENT OF NET ASSETS

March 31, 2007

=====

ASSETS

Current Assets:

Cash	\$ 425,335
Cash-restricted	71,261
Receivables	49
Prepaid expenses	30,999
Inventories	<u>500</u>

Total Current Assets	<u>528,144</u>
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Capital Assets:

Land	1,402,031
Buildings	17,947,289
Equipment	268,160
Building improvements	281,557
Construction in progress	<u>1,097,238</u>

	20,996,275
Less: accumulated depreciation	<u>(13,187,729)</u>

Net Capital Assets	<u>7,808,546</u>
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Total Assets	<u>\$ 8,336,690</u>
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See notes to financial statements

MUSKEGON HEIGHTS HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
March 31, 2007
=====

LIABILITIES and NET ASSETS

Current Liabilities:	
Accounts payable	\$ 189,425
Tenant security deposit liability	34,264
Accrued expenses	32,409
Deferred revenues	60,228
Current portion of long-term debt	<u>158,693</u>
Total Current Liabilities	<u>475,019</u>
Noncurrent liabilities:	
Long-term debt, net of current	1,175,259
Accrued compensated absences	<u>24,370</u>
Total Noncurrent Liabilities	<u>1,199,629</u>
Total Liabilities	<u>1,674,648</u>
Net Assets:	
Invested in capital assets	6,474,594
Restricted net assets	71,261
Unrestricted net assets	<u>116,187</u>
Total Net Assets	<u>6,662,042</u>
Total Liabilities and Net Assets	<u>\$ 8,336,690</u>

See notes to financial statements

MUSKEGON HEIGHTS HOUSING COMMISSION
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS

Year Ended March 31, 2007

=====

OPERATING REVENUES:

Dwelling rent	\$ 678,664
Nondwelling rent	<u>80,062</u>

Total operating revenues	<u>758,726</u>
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OPERATING EXPENSES:

Administration	450,662
Tenant services	25,534
Utilities	444,657
Ordinary maintenance and operation	656,610
General expenses	220,454
Interest expense	109,496
Housing assistance payments	160,078
Depreciation	<u>859,788</u>

Total operating expenses	<u>2,927,279</u>
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Operating income(loss)	<u>(2,168,553)</u>
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NONOPERATING REVENUES:

Investment interest income	6,138
Other income	60,065
Operating grants	1,289,992
Capital grants	<u>601,067</u>

Total nonoperating revenues	<u>1,957,262</u>
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Change in net assets	(211,291)
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Prior period adjustment	(3,122)
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Net assets, beginning	<u>6,876,455</u>
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Net assets, ending	<u><u>\$ 6,662,042</u></u>
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See notes to financial statements

MUSKEGON HEIGHTS HOUSING COMMISSION

STATEMENT OF CASH FLOWS

Year Ended March 31, 2007

=====

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling and nondwelling rents	\$ 791,084
Cash payments to other suppliers of goods and services	(1,615,086)
Cash payments to employees for services	<u>(438,557)</u>
Net cash (used) by operating activities	<u>(1,262,559)</u>

CASH FLOWS FROM NONCAPITAL

FINANCING ACTIVITIES:

Tenant security deposits	(4,905)
Operating grants	1,360,236
Other revenue	<u>60,065</u>
Net cash provided by noncapital financing activities	<u>1,415,396</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Note proceeds	1,333,952
Capital grants	601,067
Payments for capital acquisitions	<u>(1,940,687)</u>
Net cash (used) by capital and related financing activities	<u>(5,668)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Receipts of interest and dividends	<u>6,138</u>
Net cash provided by investing activities	<u>6,138</u>

Net increase(decrease) in cash	153,307
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Cash, beginning	<u>343,289</u>
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Cash, ending	<u>\$ 496,596</u>
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MUSKEGON HEIGHTS HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended March 31, 2007
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RECONCILIATION OPERATING INCOME(LOSS)
TO NET CASH PROVIDED BY OPERATING
ACTIVITIES:

Operating income(loss)	\$(2,168,553)
Adjustments to reconcile operating (loss) to net cash provided(used) by operating activities:	
Depreciation	859,788
Bad debt allowance adjustment	(25,863)
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	32,358
Prepaid expenses	(12,569)
Increase (decrease) in liabilities:	
Accounts payable	5,074
Accrued compensated absences	23,791
Accounts payable-PILOT	<u>23,415</u>
Net cash (used) by operating activities	<u><u>\$(1,262,559)</u></u>

See notes to financial statements

MUSKEGON HEIGHTS HOUSING COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
March 31, 2007
=====

NOTE 1: Summary of Significant Accounting Policies

The Muskegon Heights Housing Commission (the Housing Commission) is an autonomous quasi government entity. The Housing Commission is a Public Housing Agency created by the City of Muskegon Heights in 1941, consisting of a five member board appointed by the City of Muskegon Heights City Manager and charged with the responsibility to provide low-rent housing, under the low rent program Annual Contributions Contract for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other Federal agencies.

The Housing Commission complies with U.S. generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Housing Commission the option of electing to apply FASB pronouncements issued after November 30, 1989, except for those that conflict with or contradict a GASB pronouncement. The Housing Commission has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1(a) Financial Reporting Entity

The Housing Commission's financial reporting entity comprises the following:

Primary Government:	Housing Commission
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In determining the financial reporting entity, the Housing Commission complies with the provisions of GASB Statement No. 14 as amended by GASB No. 39, "The Financial Reporting Entity", and includes all component units, if any, of which the Housing Commission appointed a voting majority of the units' board; the Housing Commission is either able to impose its will on the unit or a financial benefit or burden relationship exists. There are no agencies, organizations or activities meeting this criteria.

1(b) Basis of Presentation

Financial statements of the reporting entity's programs are organized and reported as an enterprise fund and are accounted for by providing a set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Enterprise funds are used to account for business-like activities provided to its tenants. These activities are financed primarily by user charges and/or Federal funding and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes all of the Housing Commission's programs as an enterprise fund.

Following is a description of the Housing Commission's programs:

Program	Brief Description
Low Rent	Accounts for activities of the Public and Indian Housing program which HUD provides an annual subsidy to help public housing agencies (PHAs) pay some of the cost of operating and maintaining public housing units.
Housing Choice Vouchers	Accounts for activities of the Voucher program which assists very low income families, the elderly, and the disabled to afford decent, safe and sanitary housing in the private market.
Capital Fund Program	Accounts for activities of the Capital Fund which provides funds to housing authorities to modernize public housing developments.

1(c) Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the financial statements, the "economic resources" measurement focus is used as follows:

The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current

1(c) Measurement Focus and Basis of Accounting (Continued)

or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

In the financial statements, the proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

1(d) Assets, Liabilities, and Equity

Cash and Investments

For the purpose of the Statement of Net Assets, "cash and cash equivalents" includes all demand, savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less. For the purpose of the Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value except for short-term U.S. Treasury obligations, if any, with a remaining maturity at the time of purchase of one year or less. Those investments, if any, are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Note 2(b) and 3(a).

Interprogram Receivables and Payables

During the course of operations, numerous transactions occur within individual programs that may result in amounts owed between these programs. Offsetting interprograms are eliminated for financial statement presentation.

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Tenant accounts receivable, accrued interest receivable and accounts receivable from U.S. Department of Housing and Urban Development compose the majority of receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Inventories

Inventories are valued at average cost, and consist of expendable supplies held for consumption. The cost of inventories are recorded as expenditures when consumed, rather than when purchased.

1(d) Assets, Liabilities, and Equity (Continued)

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission adopts a formal operating budget each year for its operating programs and on a project length basis for its capital expenditures which are approved by the Board of Commissioners and submitted to the Department of Housing and Urban Development for their approval, if required.

Estimates and Assumptions

The Housing Commission uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses.

Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) is as follows:

In the financial statements, capital assets purchased or acquired with an original cost of \$500 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets are recorded as an allocated expense depending on the program where the asset is shown, in the Statement of Revenues, Expenses and Changes in Net Assets, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	40 years
Building and land improvements	15 years
Automotive and computers	5 years
Furniture, equipment and machinery	10 years

1(d) Assets, Liabilities, and Equity (Continued)

Compensated Absences

The Housing Commission's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as short-term and long-term liabilities based on historical trends. In accordance with the provisions of GASB Statement No. 16, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Equity Classifications

Equity is classified as net assets and displayed in two components:

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets - Consists of monies reserved for capital replacements.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

1(e) Revenues, Expenditures, and Expenses

Operating Revenues and Expenses

Operating revenues and expenses are those that result from providing services and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Non-operating revenues and expenses are those that are not operating in nature.

Interfund Transfers

For the purposes of the Statement of Revenues, Expenses, and Changes in Net Assets, all interfund transfers between individual programs, if any, have been eliminated.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

1(e) Revenues, Expenditures, and Expenses (Continued)

Income Taxes

As a component unit of a Michigan City, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: Stewardship, Compliance, and Accountability

The Housing Commission and its component units, if any, are subject to various federal, state, and local laws and contractual regulations. An analysis of the Housing Commission's compliance with significant laws and regulations and demonstration of its stewardship over Housing Commission resources follows.

2(a) Program Accounting Requirements

The Housing Commission complies with all state and local laws and regulations requiring the use of separate programs. The programs used by the Housing Commission are as follows:

Program	Required By
Public and Indian Housing	U.S. Department of HUD
Housing Choice Vouchers	U.S. Department of HUD
Capital Fund Program	U.S. Department of HUD

2(b) Deposits and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of the Housing Commission in financial institutions must be secured with acceptable collateral valued at the lower of market or par. All financial institutions pledging collateral to the Housing Commission must have a written Depository Agreement. As reflected in Note 3(a), all deposits were fully insured or collateralized.

Investments of the Housing Commission are limited by state law to the following:

- a. Direct obligations of the U.S. Government or its agencies or instrumentalities to which acceptable collateral is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral.

2(c) Revenue Restrictions

The Housing Commission has various restrictions placed over certain revenue sources. The primary restricted revenue sources include:

Revenue Source	Legal Restrictions of Use
Capital Fund Program	Modernization

2(c) Revenue Restrictions (Continued)

For the year ended March 31, 2007, the Housing Commission complied, in all material respects, with these revenue restrictions.

NOTE 3: Detail Notes on Transactions Classes/Accounts

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3(a) Cash and Investments

Deposits

The Housing Commission's policies regarding deposits of cash are discussed in Note 1(d). The table presented below is designed to disclose the level of custody credit risk assumed by the Housing Commission based upon how its deposits were insured or secured with collateral at March 31, 2007. The categories of credit risk are defined as follows:

Category 1 - Insured by FDIC or collateralized with securities held by the Housing Commission (or public trust) or by its agent in its name.

Category 2 - Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Housing Commission's name.

Category 3 - Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Housing Commission's name; or collateralized with no written or approved collateral agreement.

	Total Bank Balance	Custody Credit Risk			Total Carrying Value
		Category 1	Category 2	Category 3	
Demand deposits	\$ 369,839	\$369,839	\$	\$	\$ 298,458
Savings	<u>197,963</u>	<u>197,963</u>			<u>197,963</u>
	<u>\$ 567,802</u>	<u>\$567,802</u>	<u>\$</u>	<u>\$</u>	<u>\$ 496,421</u>

Investments

The Housing Commission did not have any investments.

3(a) Cash and Investments (Continued)

A reconciliation of cash as shown on the combined statement of net assets is as follows:

Cash on hand	\$ 175
Carrying amount of deposits	<u>496,421</u>
Total	<u>\$ 496,596</u>

Cash and investments:	
Enterprise activities	\$ 567,802
Enterprise activities - checks written in excess of deposits	<u>(71,206)</u>
Total	<u>\$ 496,596</u>

3(b) Accounts Receivable

Receivables detail at March 31, 2007, is as follows:

Tenant accounts receivable	\$ 4,511
Allowance for doubtful accounts	<u>(4,462)</u>
	<u>\$ 49</u>

3(c) Capital Assets

Capital asset activity for the year ended March 31, 2007, was as follows:

	<u>Balance</u> <u>03/31/06</u>	<u>Additions/</u> <u>Transfers</u>	<u>Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>03/31/07</u>
Low Rent Program				
Land	\$ 1,402,031	\$	\$	\$ 1,402,031
Buildings	7,293,484	10,653,805		17,947,289
Furniture, equip. & machinery - dwellings		69,556		69,556
Furniture, equip. & machinery - administration	194,303	4,301		198,604
Building improvements	<u>9,065,579</u>		<u>8,784,022</u>	<u>281,557</u>
	17,955,397	<u>\$10,727,662</u>	<u>\$8,784,022</u>	19,899,037
Less accumulated depreciation	<u>(12,269,293)</u>	<u>*\$(918,436)</u>	<u>\$</u>	<u>(13,187,729)</u>
Total	<u>\$ 5,686,104</u>			<u>\$ 6,711,308</u>

3(c) Capital Assets (Continued)

	<u>Balance</u> <u>03/31/06</u>	<u>Additions/</u> <u>Transfers</u>	<u>Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>03/31/07</u>
Capital Fund Program				
Buildings	\$ 402,803	\$	\$ (402,803)	\$
Furniture, equip. & machinery - administration	192,121		(192,121)	
Building improvements	60,000		(60,000)	
Construction in progress	<u>445,267</u>	<u>651,971</u>		<u>1,097,238</u>
	1,100,191	<u>\$ 651,971</u>	<u>\$ (654,924)</u>	1,097,238
Less accumulated depreciation	<u>(58,648)</u>	<u>\$</u>	<u>\$ 58,648</u>	
Total	<u>\$ 1,041,543</u>			<u>\$ 1,097,238</u>
Combined Totals				<u>\$ 7,808,546</u>

* Includes adjustment of \$58,648.

3(d) Accounts Payable

Payable detail at March 31, 2007, is as follows:

Accounts payable - vendors	\$ 61,246
Accounts payable - PILOT	<u>128,179</u>
	<u>\$ 189,425</u>

3(e) Accrued Expenses

Accrued expense detail at March 31, 2007, is as follows:

Accrued compensated absences-current portion	<u>\$ 32,409</u>
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3(f) Non-current Liabilities

As of March 31, 2007, the non-current liabilities are comprised of the following:

Long-term debt, net of current	\$1,175,259
Accrued compensated absences - noncurrent portion	<u>24,370</u>
	<u>\$1,199,629</u>

3(g) Interprogram Transactions and Balances

Operating Transfers

There was an operating transfer of \$41,837 from the capital fund program to the low rent program during the fiscal year ended March 31, 2007.

Interprogram Receivable/Payable

Low Rent Program	\$ 71,261
Low Rent Program	(203,119)
Capital Fund Program	131,489
Capital Fund Program	(71,261)
Housing Choice Voucher Program	71,630
	<u>\$</u>

3(h) Long-term Debt

An installment purchase agreement was signed and dated August 19, 2005 by and between the Muskegon Heights Housing Commission(MHHC) with the Water & Energy Savings Corporation(WESC) of Lake Lure, North Carolina and the Bank of the Ozarks as the assignee.

The MHHC agreed to purchase and WESC agreed to sell and provide the MHHC certain water and energy conservation equipment to be installed in public housing facilities operated by MHHC for the sum of \$1,406,980. The purchase price is payable in quarterly payments of principal and interest on each May 19, August 19, November 19, and February 19, commencing May 19, 2006 and ending on May 19, 2017. The interest rate is at 4.436% with the quarterly payments of principal and interest at \$39,673.13.

Debt principal requirements for the ensuing five-year period are as follows:

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
3/31/08	\$ 57,369	\$ 158,693	\$ 216,062
3/31/09	52,658	106,034	158,692
3/31/10	47,729	110,964	158,693
3/31/11	42,570	116,122	158,692
3/31/12	37,172	121,521	158,693
Thereafter	<u>96,128</u>	<u>720,618</u>	<u>816,746</u>
	<u>\$ 333,626</u>	<u>\$ 1,333,952</u>	<u>\$ 1,667,578</u>

Long-term liability activity for the year ended March 31, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Note payable	<u>\$</u>	<u>\$1,333,952</u>	<u>\$1,333,952</u>	<u>\$ 158,693</u>

NOTE 4: Other Notes

4(a) Employee Retirement Plan

Each employee is covered under a defined benefit plan with the Michigan Municipal Employees Retirement System (MERS) that provides for annual employer contributions with complete vesting after 10 years of service and normal retirement age at 60 years of age. At December 31, 2005, the date of the last completed actuarial evaluation, the Housing Commission's present value of accrued benefits (PVAB) was \$465,968. The valuation of assets to meet this obligation was \$675,644, therefore the overfunded (PVAB) is \$209,676. The Housing Commission computed employer contributions as a percentage of payroll of 3.72% for the fiscal year beginning April 1, 2007. The estimated employer retirement contributions will be \$12,420 for the fiscal year beginning April 1, 2007. There are ten(10) active members, no vested former members, and two() retirees and beneficiaries.

4(b) Risk Management

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees health and life; and natural disasters. The Housing Commission manages these various risks of loss as follows:

Type of Loss	Method Managed
a. Torts, errors and omissions	Purchased insurance from Housing Authority Risk Retention Group(HARRG).
b. Injuries to employees (workers' compensation)	Purchased with the Michigan Municipal League.
c. Physical property and liability losses	Purchased commercial insurance from HARRG.
d. Health	Purchased insurance with Priority Health.
e. Life	Purchased insurance with American Community Mutual.
f. Auto	Purchased insurance from Farm Bureau.

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Housing Commission. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

4(c) Commitments and Contingencies

Commitments - Construction

At March 31, 2007, the Housing Commission had the following pending construction projects in progress:

	<u>Funds Approved</u>	<u>Funds Expended - Project to Date</u>
2003 CFP	\$ 634,705	\$ 621,543
2004 CFP	717,765	717,765
2005 CFP	712,610	705,443
2006 CFP	685,437	535,489
	<u>\$2,750,517</u>	<u>\$2,580,240</u>

Contingencies

The Housing Commission is subject to possible examination by Federal and State authorities who determine compliance with terms, conditions, laws and regulations governing other grants given to the Housing Commission in the current and prior years. No significant violations of finance-related legal or contractual provisions occurred.

The City of Muskegon Heights has filed a lawsuit against the Housing Commission for the payment of PILOT in the amount of \$104,764 that covers a four year period and some miscellaneous charges from prior years in the approximate amount of \$55,000. The Housing Commission has the PILOT set up as an account payable as of March 31, 2007, but has a disagreement with the City over the miscellaneous charges and curbside garbage pickup charges from prior years.

4(d) Prior Period Adjustments, Equity Transfers and Correction of Errors

Low Rent Program

Prior period adjustment:

To remove an account classified as cash-
activity fund, that does not exist \$(3,122)

Equity transfers:

Transfer CFP 501-02 to low rent 452,464
Transfer CFP 501-02 depreciation (55,321)
Transfer CFP 502-03 to low rent 80,295
Transfer CFP 502-03 depreciation (3,328)

\$ 470,988

Capital Fund Program

Equity transfer \$(474,110)

NOTE 5: Scatter Site Home Purchases

During the fiscal year ended March 31, 2007, the Housing Commission did not sell any scatter site homes. There are three homes left in inventory.

These monies are deposited in a savings account at Comerica Bank (account #1840357527). The balance in this savings account as of March 31, 2007 is \$56,371.

NOTE 6: Segment Information

The Housing Commission maintains one Enterprise Fund that includes three separate programs which provide housing assistance and grant programs. Segment information for the year ended March 31, 2007, was as follows:

	Low Rent Program	Capital Fund Program	Housing Choice Voucher Program
Condensed Statement of Net Assets			
Current assets	\$ 379,678	\$ 202,750	\$ 220,096
Capital assets	6,711,308	1,097,238	
Total assets	<u>\$ 7,090,986</u>	<u>\$ 1,299,988</u>	<u>\$ 220,096</u>
Current liabilities	\$ 615,206	\$ 131,489	\$ 2,704
Noncurrent liabilities	1,198,997		632
Total liabilities	<u>1,814,203</u>	<u>131,489</u>	<u>3,336</u>
Net assets:			
Invested in capital assets	5,377,356	1,097,238	
Restricted net assets		71,261	
Unrestricted net assets	(100,573)		216,760
Total net assets	<u>5,276,783</u>	<u>1,168,499</u>	<u>216,760</u>
Total liabilities & net assets	<u>\$ 7,090,986</u>	<u>\$ 1,299,988</u>	<u>\$ 220,096</u>

NOTE 6: Segment Information (Continued)

	Low Rent Program	Capital Fund Program	Housing Choice Voucher Program
Condensed Statement of Activities			
Dwelling and nondwelling rents	\$ 758,726	\$	\$
Depreciation	(859,788)		
Other operating expenses	<u>(1,819,574)</u>	<u>(53,490)</u>	<u>(194,427)</u>
Operating (loss)	(1,920,636)	(53,490)	(194,427)
Nonoperating revenues:			
Operating transfers in(out)	41,837	(41,837)	
Investment earnings	5,396		742
Other income	60,065		
Operating grants	946,870	95,326	247,796
Capital grants		<u>601,067</u>	
Change in net assets	(866,468)	601,066	54,111
Prior period adjustments	470,988	(474,110)	
Beginning net assets	<u>5,672,263</u>	<u>1,041,543</u>	<u>162,649</u>
Ending net assets	<u>\$ 5,276,783</u>	<u>\$ 1,168,499</u>	<u>\$ 216,760</u>
Condensed Statement of Cash Flows			
Net cash provided(used) by:			
Operating activities	\$ (999,330)	\$ (72,138)	\$ (191,091)
Noncapital financing activities	1,064,794	72,137	278,465
Capital and related financing activities	(76,930)	71,262	
Investing activities	<u>5,396</u>		<u>742</u>
Net increase(decrease)	(6,070)	71,261	88,116
Beginning cash	<u>282,939</u>		<u>60,350</u>
Ending cash	<u>\$ 276,869</u>	<u>\$ 71,261</u>	<u>\$ 148,466</u>

SUPPLEMENTARY INFORMATION

MUSKEGON HEIGHTS HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
BY PROGRAM

March 31, 2007

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C-3018	Capital
Low Rent	Fund
Program	Program
<u>14.850a</u>	<u>14.872</u>

ASSETS

Current assets:

Cash and cash equivalents	\$ 276,869	\$ 71,261
Cash-restricted		
Receivables:		
Accounts receivable-tenants	4,511	
Allowance for doubtful accounts (4,462)	
Prepaid expenses	30,999	
Inventories	500	
Due from other programs	<u>71,261</u>	<u>131,489</u>
Total current assets	<u>379,678</u>	<u>202,750</u>

Capital assets:

Land	1,402,031	
Buildings	17,947,289	
Equipment	268,160	
Building improvements	281,557	
Construction in progress	<u>19,899,037</u>	<u>1,097,238</u>
	19,899,037	1,097,238
Less accumulated depreciation	<u>(13,187,729)</u>	<u></u>
Net capital assets	<u>6,711,308</u>	<u>1,097,238</u>
Total Assets	<u>\$ 7,090,986</u>	<u>\$1,299,988</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$ 148,466	\$ 425,335
	71,261
	4,511
	(4,462)
	30,999
	500
<u>71,630</u>	<u>274,380</u>
<u>220,096</u>	<u>802,524</u>
	1,402,031
	17,947,289
	268,160
	281,557
	<u>1,097,238</u>
	20,996,275
	<u>(13,187,729)</u>
	<u>7,808,546</u>
<u>\$ 220,096</u>	<u>\$ 8,611,070</u>

MUSKEGON HEIGHTS HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
BY PROGRAM (CONTINUED)
 March 31, 2007

=====

	C-3018 Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS		
Current liabilities:		
Accounts payable	\$ 189,425	\$
Tenant security deposit liability	34,264	
Accrued expenses	29,705	
Deferred revenues		60,228
Current portion of long-term debt	158,693	
Due to other programs	<u>203,119</u>	<u>71,261</u>
Total current liabilities	<u>615,206</u>	<u>131,489</u>
Noncurrent liabilities:		
Long-term debt, net of current	1,175,259	
Accrued compensated absences	<u>23,738</u>	<u> </u>
Total noncurrent liabilities	<u>1,198,997</u>	<u> </u>
Total liabilities	<u>1,814,203</u>	<u>131,489</u>
Net Assets:		
Invested in capital assets	5,377,356	1,097,238
Restricted net assets		71,261
Unrestricted net assets	<u>(100,573)</u>	<u> </u>
Total net assets	<u>5,276,783</u>	<u>1,168,499</u>
Total Liabilities and Net Assets	<u>\$7,090,986</u>	<u>\$1,299,988</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$ 189,425
	34,264
2,704	32,409
	60,228
	158,693
	<u>274,380</u>
<u>2,704</u>	<u>749,399</u>
	1,175,259
<u>632</u>	<u>24,370</u>
<u>632</u>	<u>1,199,629</u>
<u>3,336</u>	<u>1,949,028</u>
	6,474,594
	71,261
<u>216,760</u>	<u>116,187</u>
<u>216,760</u>	<u>6,662,042</u>
<u>\$ 220,096</u>	<u>\$ 8,611,070</u>

MUSKEGON HEIGHTS HOUSING COMMISSION
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND
 CHANGES IN NET ASSETS BY PROGRAM**
 Year Ended March 31, 2007

	C-3018 Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 678,664	\$
Nondwelling rent	<u>80,062</u>	<u></u>
Total operating revenues	<u>758,726</u>	<u></u>
OPERATING EXPENSES:		
Administration	413,506	3,125
Tenant services	25,534	
Utilities	444,657	
Ordinary maintenance and operation	606,245	50,365
General expenses	220,136	
Interest expense	109,496	
Housing assistance payments		
Depreciation	<u>859,788</u>	<u></u>
Total operating expenses	<u>2,679,362</u>	<u>53,490</u>
Operating income(loss)	<u>(1,920,636)</u>	<u>(53,490)</u>
NONOPERATING REVENUES:		
Operating transfers in(out)	41,837	(41,837)
Investment interest income	5,396	
Other income	60,065	
Operating grants	946,870	95,326
Capital grants	<u></u>	<u>601,067</u>
Total nonoperating revenues	<u>1,054,168</u>	<u>654,556</u>
Change in net assets	(866,468)	601,066
Prior period adjustments, equity transfers and correction of errors	470,988	(474,110)
Net assets, beginning	<u>5,672,263</u>	<u>1,041,543</u>
Net assets, ending	<u><u>\$5,276,783</u></u>	<u><u>\$1,168,499</u></u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
 \$	 \$ 678,664
<u> </u>	<u>80,062</u>
 <u> </u>	 <u>758,726</u>
 34,031	450,662
	25,534
	444,657
	656,610
318	220,454
	109,496
160,078	160,078
<u> </u>	<u>859,788</u>
<u>194,427</u>	<u>2,927,279</u>
<u>(194,427)</u>	<u>(2,168,553)</u>
 742	6,138
	60,065
247,796	1,289,992
<u> </u>	<u>601,067</u>
<u>248,538</u>	<u>1,957,262</u>
54,111	(211,291)
	(3,122)
<u>162,649</u>	<u>6,876,455</u>
<u>\$ 216,760</u>	<u>\$ 6,662,042</u>

MUSKEGON HEIGHTS HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
BY PROGRAM

Year Ended March 31, 2007

=====

	C-3018 Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from dwelling and nondwelling rents	\$ 791,084	\$
Cash payments to other suppliers of goods and services	(1,371,908)	(72,138)
Cash payments to employees for services	<u>(418,506)</u>	<u> </u>
Net cash (used) by operating activities	<u>(999,330)</u>	<u>(72,138)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Interprogram due to (from)	20,927	(51,596)
Operating transfers in(out)	41,837	(41,837)
Tenant security deposits	(4,905)	
Operating grants	946,870	165,570
Other revenue	<u>60,065</u>	<u> </u>
Net cash provided by noncapital financing activities	<u>1,064,794</u>	<u>72,137</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Note proceeds	1,333,952	
Capital grants		601,067
Payments for capital acquisitions	<u>(1,410,882)</u>	<u>(529,805)</u>
Net cash provided (used) by capital and related financing activities	<u>(76,930)</u>	<u>71,262</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Receipts of interest and dividends	<u>5,396</u>	<u> </u>
Net cash provided by investing activities	<u>5,396</u>	<u> </u>
Net increase(decrease) in cash	(6,070)	71,261
Cash, beginning	<u>282,939</u>	<u> </u>
Cash, ending	<u><u>\$ 276,869</u></u>	<u><u>\$ 71,261</u></u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$ 791,084
(171,040)	(1,615,086)
<u>(20,051)</u>	<u>(438,557)</u>
<u>(191,091)</u>	<u>(1,262,559)</u>
30,669	
247,796	(4,905)
<u> </u>	<u>1,360,236</u>
	<u>60,065</u>
<u>278,465</u>	<u>1,415,396</u>
	1,333,952
	601,067
<u> </u>	<u>(1,940,687)</u>
<u> </u>	<u>(5,668)</u>
<u>742</u>	<u>6,138</u>
<u>742</u>	<u>6,138</u>
88,116	153,307
<u>60,350</u>	<u>343,289</u>
<u>\$ 148,466</u>	<u>\$ 496,596</u>

MUSKEGON HEIGHTS HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
BY PROGRAM (CONTINUED)
Year Ended March 31, 2007

=====

C-3018	Capital
Low Rent	Fund
Program	Program
<u>14.850a</u>	<u>14.872</u>

**RECONCILIATION OF OPERATING INCOME
(LOSS) TO NET CASH PROVIDED BY
OPERATING ACTIVITIES:**

Operating income(loss)	\$ (1,920,636)	\$ (53,490)
Adjustments to reconcile operating (loss) to net cash provided(used) by operating activities:		
Depreciation	859,788	
Bad debt allowance adjustment	(25,863)	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	32,358	
Prepaid expenses	(12,569)	
Increase (decrease) in liabilities:		
Accounts payable	23,722	(18,648)
Accrued compensated absences	20,455	
Accounts payable-PILOT	<u>23,415</u>	<u> </u>
Net cash (used) by operating activities	<u>\$ (999,330)</u>	<u>\$ (72,138)</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
 \$(194,427)	 \$(2,168,553)
	859,788 (25,863)
	32,358 (12,569)
3,336	5,074 23,791 <u>23,415</u>
<u>\$(191,091)</u>	<u>\$(1,262,559)</u>

MUSKEGON HEIGHTS HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended March 31, 2007
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Major - Direct Program</u>		
2007	Low Rent Public Housing	14.850a	\$ 946,870
	<u>Public and Indian Housing Major - Direct Program</u>		
2007	Capital Fund Program	14.872	696,393
	<u>Low Income Public Housing Nonmajor - Direct Program</u>		
2007	Housing Choice Vouchers	14.871	<u>247,796</u>
	Total		<u>\$1,891,059</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

MUSKEGON HEIGHTS HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Year Ended March 31, 2007

=====

FDS Line Item No.		C-3018 Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 242,605	\$
112	Cash-restricted		71,261
114	Cash-tenant security deposits	<u>34,264</u>	
100	Total cash	<u>276,869</u>	<u>71,261</u>
	Receivables:		
126	A/R-tenants-dwelling rents	4,511	
126.1	Allowance for doubtful accounts	<u>(4,462)</u>	
120	Total receivables, net of allowance for doubtful accounts	<u>49</u>	
	Other Current Assets:		
142	Prepaid expenses and other assets	30,999	
143	Inventories	500	
144	Interprogram due from	<u>71,261</u>	<u>131,489</u>
	Total other current assets	<u>102,760</u>	<u>131,489</u>
150	Total current assets	<u>379,678</u>	<u>202,750</u>
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	1,402,031	
162	Buildings	17,947,289	
163	Furn, equip & mach-dwellings	69,556	
164	Furn, equip & mach-admin.	198,604	
165	Building improvements	281,557	
166	Accumulated depreciation	(13,187,729)	
167	Construction in progress		<u>1,097,238</u>
160	Total fixed assets, net of accumulated depreciation	<u>6,711,308</u>	<u>1,097,238</u>
180	Total noncurrent assets	<u>6,711,308</u>	<u>1,097,238</u>
190	Total Assets	<u>\$ 7,090,986</u>	<u>\$1,299,988</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
 \$ 148,466	 \$ 391,071
<u> </u>	<u>71,261</u>
	<u>34,264</u>
<u>148,466</u>	<u>496,596</u>
	 4,511
<u> </u>	<u>(4,462)</u>
<u> </u>	<u>49</u>
	 30,999
	500
<u>71,630</u>	<u>274,380</u>
<u>71,630</u>	<u>305,879</u>
<u>220,096</u>	<u>802,524</u>
	 1,402,031
	17,947,289
	69,556
	198,604
	281,557
	(13,187,729)
<u> </u>	<u>1,097,238</u>
<u> </u>	<u>7,808,546</u>
<u> </u>	<u>7,808,546</u>
<u>\$ 220,096</u>	<u>\$ 8,611,070</u>

MUSKEGON HEIGHTS HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended March 31, 2007

=====

FDS Line Item No.		C-3018 Low Rent Program 14.850a	Capital Fund Program 14.872
LIABILITIES and NET ASSETS			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 61,246	\$
322	Accrued compensated absences- current portion	29,705	
333	Accounts payable-other government	128,179	
341	Tenant security deposits	34,264	
342	Deferred revenues		60,228
343	Current portion of long-term debt	158,693	
347	Interprogram due to	<u>203,119</u>	<u>71,261</u>
310	Total current liabilities	<u>615,206</u>	<u>131,489</u>
	Noncurrent Liabilities:		
351	Long-term debt, net of current	1,175,259	
354	Accrued compensated absences	<u>23,738</u>	
350	Total noncurrent liabilities	<u>1,198,997</u>	
300	Total liabilities	<u>1,814,203</u>	<u>131,489</u>
	Net Assets:		
508.1	Invested in capital assets	<u>5,377,356</u>	<u>1,097,238</u>
508	Total invested in capital assets	5,377,356	1,097,238
511.1	Restricted net assets		71,261
512.1	Unrestricted net assets	<u>(100,573)</u>	
513	Total Net Assets	<u>5,276,783</u>	<u>1,168,499</u>
600	Total Liabilities and Net Assets	<u>\$ 7,090,986</u>	<u>\$1,299,988</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$ 61,246
2,704	32,409
	128,179
	34,264
	60,228
	158,693
	<u>274,380</u>
<u>2,704</u>	<u>749,399</u>
	1,175,259
<u>632</u>	<u>24,370</u>
<u>632</u>	<u>1,199,629</u>
<u>3,336</u>	<u>1,949,028</u>
	<u>6,474,594</u>
	6,474,594
	71,261
<u>216,760</u>	<u>116,187</u>
<u>216,760</u>	<u>6,662,042</u>
<u>\$ 220,096</u>	<u>\$ 8,611,070</u>

MUSKEGON HEIGHTS HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended March 31, 2007

=====

FDS Line Item No.		C-3018 Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 678,664	\$
704	Tenant revenue-other	<u>80,062</u>	
705	Total tenant revenue	758,726	
706	HUD PHA grants	946,870	95,326
706.1	Capital grants		601,067
711	Investment income-unrestricted	5,396	
715	Other income	<u>60,065</u>	
700	Total revenue	<u>1,771,057</u>	<u>696,393</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	194,144	
912	Auditing fees		3,125
914	Compensated absences	20,454	
915	Employee benefit contributions	45,239	
916	Other operating-administrative	153,669	
	Tenant Services:		
921	Tenant services-salaries	23,815	
924	Tenant services-other	1,719	
	Utilities:		
931	Water	93,999	
932	Electricity	137,816	
933	Gas	212,842	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	150,963	
942	Ordinary maint & oper-mat'ls & other	80,171	
943	Ordinary maint & oper-contract costs	350,311	50,365
945	Employee benefit contributions	24,800	
	General expenses:		
961	Insurance premiums	145,735	
962	Other general expenses		
963	Payments in lieu of taxes	23,415	
964	Bad debt-tenant rents	50,986	
967	Interest expense	<u>109,496</u>	
969	Total operating expenses	<u>1,819,574</u>	<u>53,490</u>
970	Excess operating revenue over operating expenses	<u>(48,517)</u>	<u>642,903</u>

Housing Choice Vouchers 14,871	Totals
\$	\$ 678,664
	80,062
	758,726
247,796	1,289,992
	601,067
742	6,138
	60,065
248,538	2,715,988

18,691	212,835
	3,125
3,336	23,790
4,696	49,935
7,308	160,977

23,815
1,719

93,999
137,816
212,842

150,963

80,171

400,676
24,800

	145,735
318	318
	23,415
	50,986
	109,496
34,349	1,907,413

214,189	808,575
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MUSKEGON HEIGHTS HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended March 31, 2007

=====

FDS Line Item No.		C-3018 Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
	Other expenses:		
973	Housing assistance payments		
974	Depreciation expense	<u>859,788</u>	
	Total other expenses	<u>859,788</u>	
900	Total expenses	<u>2,679,362</u>	<u>53,490</u>
	Other Financing Sources(Uses):		
1001	Operating transfers in(out)	<u>41,837</u>	<u>(41,837)</u>
1000	Excess (deficiency) of operating revenue over(under) expenses	(866,468)	601,066
1103	Beginning Net Assets	5,672,263	1,041,543
1104	Prior period adjustments, equity transfers and correction of errors	<u>470,988</u>	<u>(474,110)</u>
	Ending Net Assets	<u>\$ 5,276,783</u>	<u>\$ 1,168,499</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
160,078	160,078
	<u>859,788</u>
<u>160,078</u>	<u>1,019,866</u>
<u>194,427</u>	<u>2,927,279</u>
54,111	(211,291)
162,649	6,876,455
	<u>(3,122)</u>
<u>\$ 216,760</u>	<u>\$ 6,662,042</u>

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
Muskegon Heights Housing Commission
Muskegon Heights, Michigan

I have audited the financial statements of the business-type activities of Muskegon Heights Housing Commission, Michigan, (Housing Commission) as of and for the year ended March 31, 2007, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated December 21, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*
Muskegon Heights Housing Commission
Page Two

Compliance and Other Matters (continued)

compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sam S. Laidlaw, CPA, PC

December 21, 2007

**Report on Compliance with Requirements
Applicable To Each Major Program and
Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Housing Commissioners
Muskegon Heights Housing Commission
Muskegon Heights, Michigan

Compliance

I have audited the compliance of Muskegon Heights Housing Commission, Michigan, (Housing Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2007. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance with OMB Circular A-133
Muskegon Heights Housing Commission
Page Two

Compliance (continued)

As described in item 07-1, 07-2, and 07-3 in the accompanying schedule of findings and questioned costs, the Housing Commission, did not comply with requirements regarding eligibility and the waiting list tests that are applicable, in my opinion, for the Housing Commission, to comply with requirements applicable to the Low Rent program and the Housing Choice Voucher program.

In my opinion, except for the noncompliance described in the preceding paragraph, the Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2007.

Internal Control Over Compliance

The management of the Housing Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect the Housing Commission's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 07-1, 07-2, and 07-3, respectively.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions that are also considered

Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance with OMB Circular A-133
Muskegon Heights Housing Commission
Page Three

Internal Control Over Compliance (continued)

to be material weaknesses. However, of the reportable conditions described above, I consider item 07-2 to be a material weakness.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the City of Muskegon Heights, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sandy S. Staudt, CPA, 12

December 21, 2007

MUSKEGON HEIGHTS HOUSING COMMISSION

STATUS OF PRIOR AUDIT FINDINGS

March 31, 2007

=====

The prior audit report for the year ended March 31, 2007 contained no audit findings.

MUSKEGON HEIGHTS HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 March 31, 2007
 =====

SECTION I - SUMMARY OF AUDITOR RESULTS

Financial Statement:

Type of Auditor's Report issued: Unqualified

Internal control over financial reporting:

- * Material weakness(es) identified? No
- * Reportable condition(s) identified that are not considered to be a material weaknesses? None reported

Noncompliance material to financial statements noted? No

Is a "going concern" explanatory paragraph included in the audit report? No

Federal Awards:

Internal control over major programs:

- * Material weakness(es) identified? Yes
- * Reportable condition(s) that are not considered to be material weaknesses? Yes

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? No

Identification of major programs:

<u>CFDA</u> <u>Number</u>	<u>Federal Program</u>	<u>Amount</u> <u>Expended</u>	<u>Major</u> <u>Program</u>	<u>Compliance</u> <u>Requirement</u>	<u>Questioned</u> <u>Costs</u>	<u>Audit</u> <u>Finding</u>
14.850a	Low Rent Public Housing	\$ 946,870	Yes	E,N	N/A	07-1,2
14.872	Capital Fund Program	696,393	Yes	O	N/A	N/A
14.871	Voucher Program	247,796	No	E	N/A	07-3

The threshold for distinguishing Types A and B programs was \$500,000.

The Housing Commission was not determined to be a low-risk auditee.

MUSKEGON HEIGHTS HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
March 31, 2007

=====

SECTION II - FINANCIAL STATEMENT FINDINGS

None

MUSKEGON HEIGHTS HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
March 31, 2007

=====

SECTION III - FEDERAL AWARD FINDINGS

Low Rent Program - CFDA No. 14.850a

Finding Item 07-1: Year Ended March 31, 2007

Condition and Criteria: Required and recommended documentation is missing, incorrect, or incomplete in the tenant files.

Effect: It is difficult to determine if the tenants are eligible for the program or if the program is being run correctly in all cases without proper and complete documentation.

Cause: The staff in charge of this program did not obtain 100% of the correctly completed documentation.

Population and Items Tested: We selected 11 public housing files to test from an Ad-hoc Tenant Report provided by the Housing Commission. We started with the 4th tenant on the list and selected every 29th tenant after that until a total of 11 were selected from a population of 322 tenant files.

We found the following exceptions in the documentation in the tenant files:

	<u># of Exceptions</u>
1. Form HUD-50058 not in the tenant file	0
2. Privacy Act Notice for fiscal year not in tenant file or incorrect	0
3. Incorrect Verification of Income	0
4. Incorrect Verification of Expenses	2
5. Incorrect Verification of Assets	2
6. Inspection Report for fiscal year is missing or incorrect	0
7. Lease missing or incorrect	0
8. Application missing or incorrect	1
9. Copy of Photo I.D. missing	0
10. Copy of Proof of Social Security Number Verification missing	0
11. Worksheet for HUD-50058 missing or incorrect	1
12. Flat Rent/Income Based Rent Choice missing or incorrect	2
13. Notice of Rent Adjustment missing or incorrect	2
14. Criminal Background Check not done, not documented, or it was in the file	1
15. Declaration of 214 Status missing or incorrect	2
16. Check for Previous Eviction from Public Housing not done or incorrect	2
17. Annual Family Composition Review missing or incorrect	0
18. Annual Review missing or incorrect	0
Total	<u>15</u>

MUSKEGON HEIGHTS HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
 March 31, 2007

=====

SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)

Low Rent Program - CFDA No. 14.850a

Finding Item 07-1 (continued): Year Ended March 31, 2007

Population and Items Tested (continued):

Out of a possible 198, there were 15 exceptions from this test. This represents an exception rate of 7.58%.

Auditor's Recommendation: It is recommended that the Housing Commission continue the process of correcting the tenant files where possible, either at the next recertification or sooner.

The following is a short summary of exceptions:

<u>File</u>	<u>Client Number</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>
1	0125								x	
2	0056									
3	0157									
4	0234			x					x	
5	0250									
6	0006								x	
7	0189									
8	0008			x						
9	0209			x					x	
10	0233	x	x							
11	0344		x							
Number of Hits		<u>1</u>	<u>2</u>	<u>3</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4</u>	<u>0</u>
Percentage of Hits		<u>9%</u>	<u>18%</u>	<u>27%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>36%</u>	<u>0%</u>

LEGEND

1. No proper evidence that a criminal background check was conducted or it was in the tenant files. It may not be kept in the tenant files unless an appeal or hearing is pending.
2. Check for eviction from federal housing not conducted.
3. Proper Income/Expense/Asset verification not conducted or it was incorrect.
4. Form HUD-50058 could not be located in the tenant files.
5. HUD-Form 9886, Release of Information/Privacy Act Notice not in the file or it was not properly completed for the fiscal year reviewed.
6. Social Security Number not verified with required documentation.
7. The Housing Commission could not locate the tenant file.
8. The Housing Commission could not locate missing documents.
9. The tenant was not eligible to participate in the program.

MUSKEGON HEIGHTS HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
March 31, 2007
=====

SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)

Low Rent Program - CFDA No. 14.850a

Finding Item 07-2: Year Ended March 31, 2007

Condition and Criteria: During testing of new admissions to the program, it was discovered that there was not adequate documentation that new admissions to the program were selected correctly from the waiting list and that preferences were properly considered. In addition, the waiting list process does not consistently match the Housing Commission's policy.

Effect: Eligible tenants may not have been admitted to the program, or they may not have been admitted in the correct order.

Cause: The staff members in charge of this program did not have enough documentation to show that the new admissions were selected in the correct order. In addition, staff did not consistently follow the waiting list policy when selecting applicants from the waiting list.

Auditor's Recommendation: It is recommended that the Housing Commission improve the documentation process by placing a copy of the appropriate waiting list in a central file when they come into the program. If they are not at the top of the waiting list at the time of admission, there should be adequate documentation for anyone above them on the waiting list as to why they were skipped. Also, the process of managing the waiting list should match the policy or the policy should be changed to match a consistent process. In addition, the waiting list documentation that is saved should match the Housing Commission's policy. For example, if the policy lists preferences, the saved waiting lists should be sorted by preference.

Auditor's Note: It should be noted that the Housing Commission has started saving historical waiting lists since last year's audit.

MUSKEGON HEIGHTS HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
March 31, 2007
=====

SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)

Housing Choice Voucher Program - CFDA No. 14.871

Finding Item 07-3: Year Ended March 31, 2007

Condition and Criteria: Required and recommended documentation is missing, incorrect, or incomplete in the tenant files.

Effect: It is difficult to determine if the tenants are eligible for the voucher or if all aspects of the program is being run correctly without proper and complete documentation.

Cause: The staff in charge of this program did not obtain 100% of the correctly completed documentation.

Population and Items Tested: We selected one file to test using the haphazard method.

MUSKEGON HEIGHTS HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
March 31, 2007

SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)

Housing Choice Voucher Program - CFDA No. 14.871

Finding Item 07-3 (continued): Year Ended March 31, 2007

We found the following exceptions in the documentation in the tenant files:

	<u># of Exceptions</u>
1. Form HUD-50058 not in the tenant file	0
2. Privacy Act Notice for fiscal year not in tenant file or incorrect	0
3. Incorrect Verification of Income	1
4. Incorrect Verification of Expenses	0
5. Incorrect Verification of Assets	0
6. Inspection Report missing for fiscal year or was incorrect	0
7. Lease missing or incorrect	0
8. Application missing or incorrect	0
9. Copy of Photo I.D. missing	0
10. Copy of Proof of Social Security Number Verification missing	0
11. Annual Review not done for fiscal year or not documented	0
12. Worksheet for HUD-50058 missing or incorrect	0
13. Notice of Rent Adjustment missing or incorrect	0
14. Criminal Background Check not done, not documented, or it was in the file	0
15. Declaration of 214 Status missing or incorrect	0
16. Lead Based Paint Disclosure missing or incorrect	1
17. Check for Previous Eviction from Public Housing not done or incorrect	0
18. Request for Tenancy Approval not done or incorrect	0
19. Voucher not in file or it was incorrect	0
20. HAP Contract missing or incorrect	0
21. HAP Tenancy Addendum missing	0
22. Rent Reasonableness Test missing or incorrect	0
23. Inspection-Life Threatening Corrections made >24 hours	0
24. Inspection-NonLife Threatening Corrections made >30 days or past extension	0
25. Proper Action not Taken if (23) or (24) was violated	0
26. Annual Family Composition Review missing or incorrect	1
27. Copy of birth certificate	<u>0</u>
Total	<u>3</u>

Out of a possible 27, there were 3 exceptions from this test. This represents an exception rate of 11.11%.

MUSKEGON HEIGHTS HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
 March 31, 2007

SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)

Housing Choice Voucher Program - CFDA No. 14.871

Finding Item 07-3 (continued): Year Ended March 31, 2007

Auditor's Recommendation: It is recommended that the Housing Commission continue the process of correcting the tenant files where possible, either at the next recertification or sooner.

The following is a short summary of exceptions:

<u>File</u>	<u>Client Number</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>
1	V-001-000005	—	—	x	—	—	—	—	—	—
Number of Hits		<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Percentage of Hits		<u>0%</u>	<u>0%</u>	<u>100%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>

LEGEND

1. No proper evidence that a criminal background check was conducted or it was in the tenant files. It may not be kept in the tenant files unless an appeal or hearing is pending.
2. Check for eviction from federal housing not conducted.
3. Proper Income/Expense/Asset verification not conducted or it was incorrect.
4. Form HUD-50058 could not be located in the tenant files.
5. HUD-Form 9886, Release of Information/Privacy Act Notice not in the file or it was not properly completed for the fiscal year reviewed.
6. Social Security Number not verified with required documentation.
7. The Housing Commission could not locate the tenant file.
8. The Housing Commission could not locate missing documents.
9. The tenant was not eligible to participate in the program.

MUSKEGON HEIGHTS HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
 March 31, 2007
 =====

Electronic
 Submission
Line Number

Account Name Debit Credit

Low Rent Program:

	(1)		
943	Maintenance	\$ 27,430.00	
111	Cash-unrestricted	24,428.68	
711	Interest income		\$ 858.68
715	Other income		51,000.00

To setup a savings account at Huntington National Bank as of 3/31/07. The bank account number is #0117210447. The amount paid by Comcast for a ten year agreement to lease space for a tower was \$51,000 and was deposited during 4/06.

	(2)		
	Prior period adjustment	3,120.96	
111	Cash-unrestricted		3,120.96

To remove from the trial balance an account classified as cash-activity fund, since it does not exist.